



JAMES MADISON UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 15, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrrock, Sr.
Chairman, Joint Legislative Audit
And Review Commission

Jonathan R. Alger
President, James Madison University

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **James Madison University**, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15.1, for the year ended June 30, 2017. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed four percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

Internal Controls

1. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.
3. Intercollegiate Athletics Department management provided us with their process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the University's Intercollegiate Athletics Programs. We tested these procedures as noted below.

Affiliated and Outside Organizations

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.
5. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.
6. Intercollegiate Athletics Department management provided to us any additional reports regarding internal control matters identified during the audits of affiliated and outside organizations performed by independent public accountants. We were not made aware of any internal control findings.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2017, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the Intercollegiate Athletics Department's accounting records and the amounts on the trial balance. We

discussed the nature of adjusting journal entries with management and are satisfied that the adjustments are appropriate.

8. We compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variances exceeding ten percent of prior period amounts or budget estimates are explained below:

<u>Line Item</u>	<u>Explanation</u>
Athletic Facility Debt Service	The state refinanced Series 2009B 9(d) debt associated with Bridgeforth Stadium and UPARK Projects with series 2016A 9(d) debt; therefore, lowering the amount of interest paid in FY17.

Revenues

9. We reviewed a selection of ticket sales reconciliations performed for accuracy and proper review and approval. We performed a recalculation of ticket sales revenue for Football by comparing the number of tickets sold, attendance, and sale price to total revenue recorded in the Schedule. We determined the reconciliations reviewed to be accurate and the amounts reported in the Schedule to be substantially in agreement with our recalculation.
10. We obtained an understanding of the institution's methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement with minor differences attributed to the methodology used for projecting student fee revenue.
11. We compared amounts reported in the Schedule for direct institutional support to institutional budget transfer documentation and/or other corroborative supporting documentation, and noted them to be substantially in agreement.
12. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. Game guarantee revenue was deemed to be immaterial for detailed testing.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the James Madison University Foundation, an affiliated organization, we noted no individual contribution that

constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from James Madison University Foundation, which exceeded ten percent of all contributions and agreed them to supporting documentation.

14. We obtained the amount of in-kind revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
15. We obtained the amount of conference and NCAA distributions revenue reported in the Schedule. These amounts were deemed to be immaterial for detailed testing.
16. We obtained the amount of program, novelty, parking, and concession sales revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
17. We obtained the amount of royalties, licensing, advertisement and sponsorships revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
18. We obtained the amount of other operating revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

Expenses

19. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected 40 student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system with minor differences totaling \$11,124. We did not investigate minor differences for reasonableness.
20. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for home games during the reporting period. Game guarantee expenses were deemed to be immaterial for detailed testing.
21. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women's basketball coaches, and compared amounts paid during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.

22. We obtained the amount of severance payment expenses from the Schedule. This amount was deemed to be immaterial for detailed testing.
23. We discussed the Intercollegiate Athletics Department's team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies. Recruiting expense was deemed immaterial for detailed testing.
24. We selected a sample of disbursements for Team Travel, Game Expenses, Direct Overhead and Administrative Expenses, and Indirect Cost Paid to the Institution by Athletics. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records.
25. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. We recalculated facility payments included in the Schedule, including the two highest facility payments, and agreed them to supporting documentation.
26. We obtained an understanding of the University's methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness and noted proper reporting of these charges in the Schedule.

Other Reporting Items

27. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reporting in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.
28. We agreed total outstanding institutional debt to supporting debt schedules and the University's unaudited financial statements, as the audited financial statements were not yet available.
29. We agreed the value of athletics dedicated endowments to supporting documentation provided by the University's Foundation.
30. We agreed the value of institutional endowments to supporting documentation, including the audited financial statements of the University's Foundation.
31. We obtained a schedule of athletics related capital expenditures made during the period. We selected a sample of transactions to validate existence and accuracy of recording and recalculated totals.

Additional Procedures

32. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the squad lists of the institution. We noted agreement of the sports reported.
33. We obtained the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution met the minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.
34. We obtained a listing of student-athletes receiving Pell Grant awards from the institution's student information system and agreed the total value of these Pell Grants to the amount reported in the NCAA Membership Financial Reporting System. We noted agreement of the amounts reported.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any financial statements of the Intercollegiate Athletics Department of James Madison University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of James Madison University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

EMS/clj

JAMES MADISON UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2017

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
Operating revenues:						
Ticket sales	\$ 2,566,845	\$ 127,834	\$ 183,382	\$ 14,045	\$ 198,305	\$ 3,090,411
Student fees	-	-	-	-	37,072,699	37,072,699
Direct institutional support	1,209,292	15,948	22,137	416,449	383,396	2,047,222
Guarantees	410,000	75,000	-	31,561	-	516,561
Contributions	282,037	2,639	2,679	173,852	1,829,304	2,290,511
In-Kind	35,000	14,500	11,500	37,280	16,850	115,130
NCAA distributions	212,013	334,166	9,526	176,371	1,036,056	1,768,132
Program, novelty, parking, and concession sales	251,725	-	-	-	-	251,725
Royalties, licensing, advertisement and sponsorships	63,000	3,000	3,000	21,000	829,028	919,028
Other operating revenue	515	-	2,915	1,000	134,551	138,981
Total operating revenues	<u>5,030,427</u>	<u>573,087</u>	<u>235,139</u>	<u>871,558</u>	<u>41,500,189</u>	<u>48,210,400</u>
Operating expenses:						
Athletic student aid	2,325,015	575,485	497,296	4,655,661	534,523	8,587,980
Guarantees	220,000	204,000	42,590	39,239	-	505,829
Coaching salaries, benefits, and bonuses paid by the University and related entities	1,833,564	730,612	538,190	2,877,606	-	5,979,972
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	637,475	219,656	228,260	443,250	5,802,809	7,331,450
Severance payments	-	4,554	5,962	6,081	66,905	83,502
Recruiting	108,749	105,937	73,604	182,462	-	470,752
Team travel	1,021,112	256,714	203,620	1,523,706	-	3,005,152
Sports equipment, uniforms, and supplies	378,663	66,617	56,049	446,245	39,866	987,440
Game expenses	1,521,935	224,840	278,039	260,384	354,387	2,639,585
Fundraising, marketing and promotion	233,458	27,889	25,003	37,032	458,025	781,407
Spirit groups	-	-	-	-	1,147,422	1,147,422
Athletic facility leases and rental fees	-	-	-	-	201,754	201,754
Athletic facility debt service	-	-	-	-	5,207,466	5,207,466
Direct overhead and administrative expenses	1,358,805	414,726	415,956	1,910,935	1,682,246	5,782,668
Indirect cost paid to the institution by athletics	-	-	-	-	3,279,793	3,279,793
Medical expenses and insurance	59,195	11,540	3,401	55,570	428,046	557,752
Memberships and dues	31,120	1,165	871	5,851	70,195	109,202
Student-Athlete Meals (non-travel)	37,319	5,446	5,256	30,286	-	78,307
Other operating expenses	345,248	62,258	58,227	249,202	758,032	1,472,967
Total operating expenses	<u>10,111,658</u>	<u>2,911,439</u>	<u>2,432,324</u>	<u>12,723,510</u>	<u>20,031,469</u>	<u>48,210,400</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (5,081,231)</u>	<u>\$ (2,338,352)</u>	<u>\$ (2,197,185)</u>	<u>\$ (11,851,952)</u>	<u>\$ 21,468,720</u>	<u>\$ -</u>
Other Reporting Items:						
Total athletics-related debt						\$ 57,342,750
Total institutional debt						\$ 306,571,812
Value of athletics-dedicated endowments						\$ 7,662,505
Value of institutional endowments						\$ 93,160,366
Total athletics-related capital expenditures						\$ 2,192,507

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs are an integral part of this Schedule.

JAMES MADISON UNIVERSITY
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses for the University's Athletic Department has been prepared on the accrual basis of accounting, with the exception of debt service payments and depreciation. Principal and interest payments made on long-term debt related to athletic facilities are included in expenses on the cash basis (see Note 4). In the University's financial statements, depreciation expense is not included at the program level, and therefore is not allocated to athletics in the accompanying Schedule. See Note 3 for further information on athletics related capital assets.

The Schedule's purpose is to present a summary of revenues and expenses related to the University's Intercollegiate Athletics Programs for the year ended June 30, 2017. The Schedule includes both those revenues and expenses for athletic programs under the direct accounting control of the University and those on behalf of the University's athletics programs by outside organizations not under the University's accounting control. Because the Schedule presents only a selected portion of the University's activities, it is not intended to and does not present either the net assets, changes in net assets, or changes in cash flow for the year then ended.

Sports Accounting – Because of the significant revenues and expenses generated by football, men's basketball, and women's basketball, they are reported separately. Other sports in which the University participates are combined and reported as "Other Sports." Athletic department administrative functions and activities that provide support for all sports have been combined for reporting purposes under the caption "Non-Program Specific." These support activities include costs such as those related to facilities maintenance, fundraising/promotions, sports medicine, academic counseling, administration, communications, ticket office, compliance, etc.

Student Fees – The University assesses each student a comprehensive fee that covers a variety of auxiliary programs, such as student activities, student health, transportation, athletics, and auxiliary related debt service. The comprehensive fee is distributed near year-end based on budgeted amounts. For the Schedule of Revenues and Expenses, student fees are allocated to cover any overall athletic operating deficit. Conversely, if revenues exceed expenses, student fees allocated are reduced since any excess does not remain with the athletic department but instead increases the University's general auxiliary reserve.

Direct Institutional Support – The University funds various auxiliary renovation and maintenance projects or enhances auxiliary operating budgets from the general auxiliary reserve. Athletic related project expenses that are not capitalized and non-recurring

operating enhancements are recorded in the applicable expense categories, with an offsetting amount recognized as direct institutional support revenue.

2. COMPONENT UNIT

The James Madison University Foundation, Inc. is included as a component unit in the University's financial statements. The Foundation was formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fundraising and funds management efforts that benefit the University and its programs. Donations to the foundation earmarked for athletics operations or capital projects are not included in the Schedule, nor is endowment financial activity related to athletics. Foundation expenses made on behalf of the athletics programs are included in the Schedule. Expenses made in support of athletics totaling \$2,240,617 are included in revenue as "contributions" and included in various operating expense lines.

3. CAPITAL ASSETS

The University's policies and procedures for acquiring, approving, depreciating, and disposing of athletic-related capital assets is the same as for all University capital assets.

Capital assets include buildings and other improvements, equipment, and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories, and therefore depreciation is not included in the Schedule of Revenues and Expenses. Useful lives by asset categories are listed below:

Buildings	25-50 years
Other improvements and infrastructure	20 years
Equipment	5-15 years

A summary of athletic related capital assets for the year ending June 30, 2017 is presented as follows:

	Beginning Balance*	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Construction in progress	\$ 205,336	\$ 1,879,535	\$ -	\$ 2,084,871
Depreciable capital assets:				
Buildings and other improvements	141,108,764	-	(153,131)	140,955,633
Infrastructure	15,335,314	-	-	15,335,314
Equipment	<u>4,659,056</u>	<u>425,770</u>	<u>(27,259)</u>	<u>5,057,567</u>
Total depreciable capital assets	<u>161,103,134</u>	<u>425,770</u>	<u>(180,390)</u>	<u>161,348,514</u>
Less accumulated depreciation for:				
Buildings and other improvements	42,180,026	4,292,509	(153,131)	46,319,404
Infrastructure	3,565,737	777,874	-	4,343,611
Equipment	<u>2,778,673</u>	<u>349,669</u>	<u>(26,495)</u>	<u>3,101,847</u>
Total accumulated depreciation	<u>48,524,436</u>	<u>5,420,052</u>	<u>(179,626)</u>	<u>53,764,862</u>
Total capital assets, Net	<u>\$ 112,784,034</u>	<u>\$ (3,114,747)</u>	<u>\$ (764)</u>	<u>\$ 109,668,523</u>

*On-campus building use was reviewed during fiscal year 2017 resulting in assets being added or removed from the above schedule. Specifically, Godwin Hall (\$10.2 million gross cost less \$8.0 million of accumulated depreciation) was added and soccer field artificial turf was removed (\$1.3 million gross cost less \$.1 million of accumulated depreciation). These changes are reflected in the beginning balance.

4. LONG-TERM DEBT

For debt related to the Intercollegiate Athletic Department, the University has issued Section 9(d) bonds pursuant to Article X of the Constitution of Virginia. These bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged general fund revenues include general fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

Description	Interest Rates (%)	Maturity	Balance at June 30, 2017
Veteran's Memorial Park	3.00 - 5.00	2029	\$ 6,875,000
Bridgeforth Stadium	3.00 - 5.00	2030	32,505,000
University Park*	3.00 - 5.50	2031	17,962,750
Total			<u>\$ 57,342,750</u>

* Multiple debt issues were used for both athletic and recreation facilities. Debt listed above represents only the portion of debt allocated to athletics.

Long-term debt matures as follows:

	Principal	Interest
2018	\$ 3,322,850	\$ 2,522,090
2019	3,489,200	2,354,839
2020	3,665,550	2,179,815
2021	3,917,200	1,994,564
2022	4,121,450	1,796,318
2023-2027	23,488,600	5,993,983
2028-2031	<u>15,337,900</u>	<u>1,188,088</u>
Total	<u>\$ 57,342,750</u>	<u>\$ 18,029,697</u>

5. EXPENSE CATEGORIES

Spirit Groups – The spirit group category consists of all expenses related to the JMU Marching Band and Cheerleaders, including student aid and salaries/wages.

Indirect cost paid to the institution by athletics - The Commonwealth's Appropriation Act requires that educational and general programs in institutions of higher education recover the full indirect cost of auxiliary enterprise programs. The University assesses each auxiliary unit an indirect charge to recover institutional educational and general administrative overhead costs. In fiscal year 2017, this charge to the athletics' departments amounted to \$3,279,793.

Other expenses - Expenses in this category include communication services, supplies, non-capitalized equipment/rentals, employee training and development, moving and relocation, and travel (other than team travel).

6. EQUITY IN DISCLOSURE ACT (EADA) REPORTING

The University annually prepares the EADA Survey that reports on athletic participation, staffing, and revenue and expenses, categorized by men's and women's teams. The Survey is submitted to the federal Department of Education's Office of Postsecondary Education and is available at the following web address: <http://ope.ed.gov/athletics>.

It is the University's policy that revenue and expenses reported in the EADA Survey will equal the NCAA Schedule of Revenues and Expenses balances, with the exception of debt service. The EADA Survey requires that preparers exclude debt service from athletic related expenses.

JAMES MADISON UNIVERSITY

As of June 30, 2017

BOARD OF VISITORS

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UNIVERSITY OFFICIALS

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